

# HENRY COUNTY HOSPITAL

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Henry County Hospital  
New Castle, Indiana

We have audited the accompanying combined balance sheets of Henry County Hospital (the Hospital), a component unit of Henry County, as of December 31, 2007 and 2006, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Henry County Hospital Foundation, a blended component unit, which statements reflect total assets of approximately \$34.3 million and \$33.5 million as of December 31, 2007 and 2006, respectively, and total revenues of \$5.9 million and \$6.6 million for the years then ended. We did not audit the financial statements of HCMH Diversified Management Corporation (DMC), a blended component unit, which statements reflect total assets of approximately \$6.6 million and \$6.8 million as of December 31, 2007 and 2006, respectively, and total revenues of \$21 million and \$22.5 million for the years then ended. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the combined financial statements, in so far as it relates to the amounts included for the Foundation and DMC, is based on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, as issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

Board of Trustees  
Henry County Hospital  
New Castle, Indiana

In our opinion, based on our audits and the reports of other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2007 and 2006 and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of expressing an opinion on the combined financial statements taken as a whole. The combining financial statements and schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements of the Hospital. This information has been subjected to the auditing procedures applied in our audits and the audits of the other auditors, and in our opinion and the opinion of the other auditors, is fairly stated, in all material respects in relation to the combined financial statements taken as a whole.

Management's discussion and analysis, on pages i through xii, is not a required part of the basic combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Blue & Co., LLC*

April 15, 2008

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

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Our discussion and analysis of Henry County Hospital's (the Hospital or HCH) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 3. As mentioned in Note 1, the financial statements include the Hospital, as well as Henry County Hospital Foundation, Inc. and HCH Diversified Management Corporation (DMC)

### **USING THIS ANNUAL REPORT**

The Hospital's financial statements consist of a Balance Sheet, a Statement of Operations and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital.

### **THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether our financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service we provide to the community, as well as local economic factors to assess the overall health of the Hospital.

# HENRY COUNTY HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006

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### THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net change in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

### THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 3. The Hospital's net assets increased by \$1,379,351 or 2.2% in 2007 as you can see from Table 1.

Table 1: Assets, Liabilities and Net Assets:

	2007	2006
<b>Assets</b>		
Current assets	\$ 18,952,797	\$ 17,437,387
Capital assets, net	48,270,665	52,210,571
Other investments and limited use assets	30,856,809	28,081,296
Total assets	98,080,271	97,729,254
<b>Liabilities</b>		
Debt outstanding, current and long-term	24,283,835	26,124,733
Other current and noncurrent liabilities	8,378,917	7,566,353
Total liabilities	32,662,752	33,691,086
<b>Net assets</b>		
Invested in capital assets, net of related debt	23,939,427	26,009,390
Restricted for debt service	277,113	259,229
Restricted expendable net assets	9,454,780	8,755,765
Unrestricted	31,746,199	29,013,784
Total net assets	<u>\$ 65,417,519</u>	<u>\$ 64,038,168</u>

There are no major shifts between 2007 and 2006, showing the stability of the Hospital and its operations.

# HENRY COUNTY HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006

### OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2007, the Hospital's net assets increased by \$1,379,351 or 2.2%, as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2007	2006
<b>Operating revenues</b>		
Net patient service revenues	\$ 79,254,153	\$ 81,386,134
Other operating revenues	4,063,173	3,170,836
Total operating revenues	83,317,326	84,556,970
<b>Operating expenses</b>		
Salaries and benefits	47,588,519	50,541,385
Medical supplies and drugs	13,315,085	14,642,385
Depreciation and amortization	5,706,952	5,585,932
Other operating expenses	16,509,967	15,175,175
Total operating expenses	83,120,523	85,944,877
Operating income	196,803	(1,387,907)
<b>Non-operating revenues and expenses</b>		
Investment income	1,996,507	2,938,031
Other non-operating revenues and expenses, net	(813,959)	(1,009,923)
Total non-operating revenues (expenses)	1,182,548	1,928,108
Change in net assets	1,379,351	540,201
<b>Net assets beginning of year</b>	64,038,168	67,777,741
<b>Net assets end of year</b>	\$ 65,417,519	\$ 64,038,168

# HENRY COUNTY HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006

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### OPERATING INCOME

Inpatient admissions and outpatient registrations and procedures rose slightly in 2007, reversing volume losses from the previous year. With the addition of Nathan Millikan, M.D., FACC, as a member of Henry County Hospital Medical Group, our cardiology services have expanded significantly resulting in the dramatic increase in nuclear medicine studies. Our increased Emergency Department visits have been facilitated by the introduction of "L4" to more quickly treat patients with minor illnesses and injuries.

Volume decreases in the Sleep Center are due to the loss of the highest referrer to the Sleep Center leaving New Castle. In 2007 Hospice saw eleven fewer patients than in 2006. However, the major reason for the -24.22% volume decline is because there were more long term patients in 2006 as compared to 2007. Wound Care Center volume declines are primarily the result of a staff vacancy in the 1<sup>st</sup> quarter.

The decline in outpatient surgeries that started in 2006 and continued through 2007 is problematic. We think this is attributed to a lack of adult primary care access which we are addressing and the fact that our general surgeons were without their normal third partner for a year. Matthew Barrett, M.D., a board certified general surgeon, joined the group in August, 2007 and we have begun to see increases in outpatient volumes for general surgery. Alan Anthony, M.D., who is board certified in Family Medicine, joined New Castle Family Physicians in September, 2007, helping our adult primary care access. Another factor for the decline in outpatient surgeries is the continuing cost consciousness of consumers as outpatient surgeries are frequently elective. We also are seeing an increase in multiple procedures done at the same time so that patients can save money.

<u>Service</u>	<u>Volume Change 2006-2007</u>
Admissions (excluding newborns)	+1.88%
Emergency Department Visits	+5.98%
Outpatient Registrations	+1.59%
Outpatient Procedures	+1.78%
Deliveries	-2.01%
Inpatient Surgeries	+1.53%
Outpatient Surgeries	-4.33%
CT Scans	+0.75%
Nuclear Scans	+19.28%
MRI Scans	-0.77%
Mammography	+3.69%
Home Health	+25.95 %
Hospice	-24.22%
Wound Care	-16.39%
Sleep Center	-5.14%

# HENRY COUNTY HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006

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### BAD DEBT RISING DRAMATICALLY

Bad debt and charity care have increased significantly. There was a 76% increase in bad debt from 2006-2007 and a 120% increase in total from 2003 to 2007. This marked increase is most likely related to a downturn in the economy felt at the local level, increasing self pay and the higher co-pays and deductibles now required by many insurance plans. These increases further point to the need to expand revenue sources and reduce expenses in order to maintain an adequate operating margin.

	<u>Bad Debt</u>	<u>Charity</u>	<u>Total</u>	<u>% Chg</u>
2003	\$3,193,196	\$1,097,837	\$4,291,033	
2004	\$2,572,753	\$2,302,176	\$4,874,929	13.61%
2005	\$2,513,837	\$3,041,023	\$5,554,860	13.95%
2006	\$2,381,820	\$4,909,890	\$7,291,710	31.26%
2007	\$4,289,252	\$5,296,468	\$9,585,720	31.46%

### STRATEGIC PLANNING AND PHYSICIAN RECRUITMENT GUIDING GROWTH

The 2008 Strategic Plan and Medical Staff Development Plan developed in 2007 will guide future growth, expand our revenue base and help prepare for competitive pressures due to Clarian's construction of a new facility at Exit 10 on I-69, St. Vincent's construction of a stand-alone Emergency Department on I-69 and facility expansions at Ball and Reid.

One of the key findings from this plan was that HCH was experiencing an inpatient market share loss most likely due to inadequate access for adults to primary care physicians. We are currently recruiting new physicians in family medicine and internal medicine. A Hospitalist program should be in place by third-quarter 2008 which will improve our ability to recruit primary care physicians.

In 2007 a new cardiologist, general surgeon, two pediatricians and a family medicine physician joined Henry County Hospital Medical Group—the Hospital's employed physician practices. The addition of a local, full-time cardiologist represents significant growth opportunities. A new orthopedic surgeon has been recruited for 2009 and a new pediatrician will join the group in August, 2008 due to the announcement that one of our pediatricians will be relocating to the Kansas City area in August of 2008.



# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

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### **MARKET EXPANSION**

On January 1, 2007 HCH and New Castle Family Physicians began operating and staffing an on site employee health clinic for Draper in Spiceland. Both employees and family members can use the clinic.

Nathan Millikan, M.D., FACC joined Henry County Medical Group on July 1. His practice, Henry County Cardiology, is located in the Physician Office Center at the Hospital. The lack of a full-time cardiologist in New Castle has been problematic for several years. Dr. Millikan's new practice is a benefit to our patients and to the new opportunities it brings for Henry County Hospital. Dr. Millikan has privileges at St. Vincent Hospital in Indianapolis and Ball Hospital in Muncie to provide elective cardiac catheterization services for his patients.

The Hospital continues to work on expanding market share in western Wayne County and areas of Henry County outside of New Castle. Our physician liaison regularly calls on physicians practicing in those areas who are not members of the HCH medical staff to encourage them to use HCH services. In Rush County, our OB/GYN physicians see patients in Rushville through an arrangement with Family Health Services. Direct mail, advertising in local newspapers in those communities and billboards are used to inform local residents about HCH services. A new Hospital web site will debut in spring, 2008. To date northern Henry County and the Cambridge City area have seen the most volume growth from these efforts.

### **REVENUE ENHANCMENT ALSO LOOKS TO DECREASED EXPENSES**

HCH also continues to look at ways to enhance revenue through decreased operational costs. We are developing an Energy Savings Plan. A consultant has been hired to audit our facilities and recommend plans to become more energy efficient.

HCH began LEAN in 2006, and it has become an integral part of the operational system in the Hospital. LEAN is a nationally recognized process to streamline workflow, improve efficiency and reduce costs. Progress is also being made to have LEAN become part of the culture of physician offices in Henry County Hospital Medical Group. Two practices and several physicians participated in 2007 Rapid Improvement Events with more scheduled for 2008.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

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In 2007, Rapid Improvement Events were held throughout the Hospital and in physician offices to improve operational efficiencies including:

- Emergency Department
- Surgery
- Patient Care Unit (Med/Surg)
- New Castle Pediatrics
- New Castle Clinic
- Medical Records
- Imaging
- Registration to Cash

HCH Lab went live with the Ortho Vitros Suite in 2007 which is capable of analyzing over 80 tests. The Vitros replaced three other analyzers and allowed the Lab to eliminate one FTE technical position through attrition.

### **EMPLOYEE HEALTH INSURANCE COSTS STABILIZE**

No large claims in 2007 and changes to the employee health insurance plan resulted in \$2.5 million savings from 2006. In 2008 a High Deductible option was added.

### **HENRY COUNTY HOSPITAL MEDICAL GROUP**

Henry County Hospital Medical Group serves Henry, northern Rush and western Wayne counties. It includes 26 physicians who are 96% board certified/board eligible. Physician practices include family medicine, pediatrics, obstetrics/gynecology, cardiology, general surgery and orthopedics.

Integration of services among the physician offices and within the Hospital continues. All billing for the Group is now consolidated within the centralized billing office for the entire system with New Castle Clinic and New Castle Pediatrics added in 2007. Laboratory services were completely integrated in 2006.

New Castle Family Physicians has utilized NextGen Electronic Medical Record (EMR) since 1999. They will upgrade their current NextGen system in 2008. New Castle Pediatrics was one of the first EMR adopters in Indiana. They will convert their current system to NextGen in 2008.

New Castle Clinic physicians saw a dramatic decrease in their transcription time when they were integrated into the Hospital dictation system. We are evaluating a new transcription system that has new technologies built within it to decrease turnaround time. It also would provide physicians with the opportunity to do their transcription via voice recognition.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

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New Castle Family Physicians participated in Diabetes Measurements 1, 2, 3 for the 2007 CMS Physician Quality Reporting Initiative (PQRI). They are one of the early practice leaders in this initiative as preliminary PQRI data shows that only 16% of the eligible professionals who could have reported quality data on 74 quality measures submitted this data at least once in 2007.

### **COMMUNITY BENEFITS**

HCH provided just over \$5.2 million in charity care in 2007 which is an increase of nearly \$800,000 from 2006. The Hospital provides health education programs including childbirth classes, diabetes classes, smoking cessation and stress management. We also participate in a number of community initiatives including health fairs and Community Matters, an initiative to decrease obesity. Henry County Sports Medicine provides game coverage, injury checks and performance enhancement programs for area high schools. HCH is the county's largest employer and also contributes a significant economic impact through payroll, local purchasing when possible and employee involvement in the community.

### **MOVEMENT CONTINUES FOR ELECTRONIC HEALTH RECORDS**

Soarian™, our electronic health record, continues to expand online clinical capabilities for our physicians and staff. It is available throughout the Hospital and at our off-site locations. Physicians can access Soarian™ in their office or at an off-site location such as their homes. Through Soarian™ nursing can now enter allergies, vital signs, nursing assessment, medical history and MD discharge instructions. We can also now enter respiratory, dietary, PT and wound care orders and have single sign-on capabilities.

Epiphany is a new cardiology system that will eliminate "paper" results for Holter Monitors, EKGs and Stress Tests when it is completely installed in 2008. With Epiphany, physicians will be able to electronically read, interpret and sign charts. This information will then be pushed to Soarian™.

### **NURSING NOT EXPERIENCING STAFFING SHORTAGES**

Unlike many other hospitals, we are not experiencing nursing staffing shortages and we have a low turnover rate. Our nursing vacancy rate was 1% in 2007. We attribute this to flexible scheduling, involvement of nursing staff in clinical decisions, preceptorship training for new nurses and a rewards and recognition program. In addition, the Henry County Hospital Foundation helped establish a two-year RN degree program in New Castle through Ivy Tech State College to help ensure a future supply of nurses. The students take most clinical courses at HCH further helping our future recruitment efforts.

# HENRY COUNTY HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006

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Henry County Home Care received an Award of Merit in 2007 for Outstanding Achievement in Home Health Quality Improvement from Health Care Excel. To help reduce waiting time in the Emergency Department "L4" was opened to treat minor illnesses and injuries. The Diabetes Education program was revised to include more evening classes and a new schedule for daytime classes better suited for patient convenience. This change resulted in a 75% increase in patients attending outpatient diabetes classes as compared to 2006.

We have diligently worked over the last few years to improve our Case Coordinator discharge planning program and communications concerning discharge with physicians, nursing, social services and other departments. This is a collaborative effort among the various disciplines to facilitate the transition of the hospital patient to home or a long-term care facility.

### IMAGING ADDS NEW PACS AND NUCLEAR MEDICINE SYSTEMS

Imaging installed the Philips I-Site PACS system which will be totally integrated with Soarian™. It is easy to use and provides improved work flow and turnaround time. This is particularly beneficial for the Emergency Department as an image can be read by a radiologist who can then dictate results and immediately send it back to the ED.

We are one of the first hospitals in the US to install the new Philips Brightview nuclear imaging system. This advanced technology provides a higher level of diagnostic detail showing how a part of the body is functioning at the metabolic level. It will be particularly beneficial to the diagnostic capabilities of our expanded cardiology program.

### PATIENT SAFETY EFFORTS CONTINUE

Henry County Hospital is accredited by the Healthcare Facilities Accreditation Program (HFAP). HCH is participating in numerous local and national patient safety measurements. Our goal is to obtain 90% or above for CMS measures for heart failure, AMI (heart attack), surgical complication improvement program (SCIP) and community acquired pneumonia.

#### 2007 CMS Performance Reporting Measures\*\*

	<u>Heart Failure</u>	<u>AMI</u>	<u>SCIP</u>	<u>Pneumonia</u>
HCH	100.0%	93.8%	85.8%	91.0%
National Average	85.9%	71.6%	36.0%	64.2%

\*\*National rates represent 1<sup>st</sup> quarter 2007 data. HCH rates represent 2<sup>nd</sup> quarter 2007 data.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

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HCH also uses national Quality Forum's 30 patient safety indicators as guidelines for patient safety improvement. The Hospital is also part of the Systems Improvement Organizational Change (SIOC) collaborative with Health Care Excel. We are in the Computerized Physician Order Entry (CPOE) section.

Indiana has an Adverse Event Reporting program and HCH had one reportable adverse event in 2007. HCH also participates in the Institute for Healthcare Improvement (IHI) 5 Million Lives Campaign and a Best Practice Sharing with other Suburban Health Organization hospitals in areas such as prevention of surgical complications, rapid response teams, medication reconciliation, ventilator associated pneumonia and prevention of DVT. Departmental and hospital wide Performance Improvement Teams (PI) are continually reviewing and analyzing patient safety data and clinical indicators to determine improvement opportunities.

Installation of the Pyxis PAR<sub>x</sub><sup>®</sup> system in the Pharmacy in 2008 will provide improved patient safety and supports compliance with HFAP requirements. The Pyxis PAR<sub>x</sub><sup>®</sup> system automates the pick-check-delivery process to provide increased security during medication replenishment throughout the Hospital. The system utilizes bar code scanning technology for real-time tracking and monitoring of medication handling, pharmacist review and delivery of medications. By providing a complete chain-of-custody on medications during distribution to the nursing unit and helping to ensure the right medication is getting to the right station and the right pocket in the station, the Pyxis PAR<sub>x</sub><sup>®</sup> system is a valuable technology that provides improved patient safety.

Henry County Hospital Pharmacy will be compliant with USP Chapter 797(1) in April, 2008 when the final piece of equipment needed for compliance is installed. Enacted January 1, 2004, USP Chapter 797(1) presents the first enforceable standards for sterile compounding to help ensure consistent practices across the US and to require that compounding rooms (such as where IVs are prepared) have the same cleanliness standards as a surgical suite. All practice settings where sterile preparations are compounded are expected to be compliant with the new regulations by June, 2008.

### **CONTINUING TO IMPROVE PATIENT SATISFACTION SCORES IS CRITICAL**

HCH exceeded national and state averages in all but one category in the Medicare HCAHPS patient survey.

We have set a goal for 2008 to be in the 90<sup>th</sup> percentile or above on Inpatient, Outpatient and Emergency Department patient surveys from Press Ganey.

# HENRY COUNTY HOSPITAL

## MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006

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Our average scores in 2007 were:

Inpatient	91%
Emergency Department	73%
Outpatient	63%

In 2007, new processes to decrease patient time spent in the Emergency Department were implemented. We are hopeful these actions will improve our scores going forward.

In 2008, our Inpatient and Emergency Department Patient Satisfaction committees are focusing on communication about delays, involving patient/family in the plan of care and respect in caring.

All employees are required to participate in customer service training. Discharge phone calls are made to assess patient satisfaction and a formalized service recovery program is ongoing. The Hospital also has an ongoing employee recognition program for superior customer service.

## SCHOLARSHIPS AND "TEACHING HOSPITAL" AID RECRUITMENT

Henry County Hospital is a "teaching" hospital. We serve as a clinical site for Ivy Tech State College's two-year RN program in New Castle and their surgical technician and LPN programs. We also are a clinical site for the School of Radiological Technology at Hancock Regional Hospital and training for Butler University and Purdue University Pharmacy programs. Medical students from the Indiana University School of Medicine also serve clinical rotations with HCH physicians.

Each year 20-25 high school seniors are able to spend each morning at Henry County Hospital in a variety of clinical settings through a Health Occupations program sponsored by New Castle Vocational Schools for college bound students interested in healthcare careers.

The Dr. Cloyd L. and Mary Lou Dye scholarship fund provides financial support for medical students, interns, residents and fellows. The first two scholarships were awarded in 2007 to two Henry County residents who each received \$10,000.

The Henry County Hospital Foundation offers a variety of scholarships for students interested in health care careers and working at Henry County Hospital after graduation. These scholarships are typically given to students interested in a nursing career. They are available for high school seniors as well as for adults who are considering a new or second career in health care.

# **HENRY COUNTY HOSPITAL**

## **MANAGEMENT DISCUSSION AND ANALYSIS DECEMBER 31, 2007 AND 2006**

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In the last three years, 80 nursing scholarships worth \$128,000 have been awarded. Funding for the scholarships comes from the Foundation's annual Gala, the HCH Cookbook, donations from the Henry County Hospital Auxiliary and endowments established by Sylvira Flanagan Koons, Alice Catherine Ratcliffe, LaVaughn Bailey, Gordon Sparks and Ralph Bunner.

### **CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, county residents, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Controller, Henry County Hospital, 1000 North 16<sup>th</sup> Street, New Castle, Indiana 47362.

# HENRY COUNTY HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

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	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,441,917	\$ 3,363,648
Restricted cash equivalents	262,543	246,850
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$4,049,938 in 2007 and \$3,022,904 in 2006	10,892,478	10,306,590
Supplies and other current assets	1,177,871	2,463,127
Current portion of assets whose use is limited	1,177,988	1,057,172
Total current assets	18,952,797	17,437,387
<b>Investments</b>	18,107,964	15,892,129
<b>Assets whose use is limited</b>		
Internally designated	8,558,746	7,920,624
Held by trustee	277,113	259,229
	8,835,859	8,179,853
Less current portion	1,177,988	1,057,172
Total assets whose use is limited	7,657,871	7,122,681
<b>Capital assets, net</b>	48,270,665	52,210,571
<b>Other assets</b>	5,090,974	5,066,486
Total assets	<u>\$ 98,080,271</u>	<u>\$ 97,729,254</u>

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See accompanying notes to combined financial statements.



# HENRY COUNTY HOSPITAL

## COMBINED BALANCE SHEETS DECEMBER 31, 2007 AND 2006

### LIABILITIES AND NET ASSETS

	2007	2006
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 2,085,514	\$ 1,890,712
Accounts payable and accrued expenses	4,641,118	3,904,067
Accrued wages and related liabilities	3,223,313	2,988,868
Estimated third-party settlements	434,486	513,418
Total current liabilities	10,384,431	9,297,065
<b>Other long-term liabilities</b>	80,000	160,000
<b>Long-term debt, net of current portion</b>	22,198,321	24,234,021
Total liabilities	32,662,752	33,691,086
<b>Net assets</b>		
Unrestricted	31,746,199	29,013,784
Invested in capital assets, net of related debt	23,939,427	26,009,390
Restricted		
Expendable - debt service	277,113	259,229
Expendable - funded depreciation	8,558,746	7,920,624
By donor - expendable - for capital acquisition	896,034	835,141
Total net assets	65,417,519	64,038,168
Total liabilities and net assets	\$ 98,080,271	\$ 97,729,254

See accompanying notes to combined financial statements.

# HENRY COUNTY HOSPITAL

## COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Operating revenue</b>		
Net patient service revenue	\$ 79,254,153	\$ 81,386,134
Other revenue	4,063,173	3,170,836
Total revenue	83,317,326	84,556,970
<b>Operating expenses</b>		
Salaries and benefits	47,588,519	50,541,385
Medical professional fees	2,165,451	1,536,927
Other professional fees	4,870,599	4,318,033
Medical supplies and drugs	13,315,085	14,642,385
Other supplies	876,978	959,919
Depreciation and amortization	5,706,952	5,585,932
Utilities	1,535,870	1,692,744
Rent	862,682	1,949,997
Other	6,198,387	4,717,555
Total expenses	83,120,523	85,944,877
Operating income (loss)	196,803	(1,387,907)
<b>Nonoperating income</b>		
Investment income	1,996,507	2,938,031
Interest expense	(1,201,519)	(1,188,573)
Other nonoperating	387,560	178,650
Total nonoperating income (expense)	1,182,548	1,928,108
Change in net assets	1,379,351	540,201
<b>Net assets</b>		
Beginning of year	64,038,168	63,497,967
End of year	<u>\$ 65,417,519</u>	<u>\$ 64,038,168</u>

See accompanying notes to combined financial statements.

# HENRY COUNTY HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Cash flows from operating activities</b>		
Cash received from patients and third party payors	\$ 78,589,333	\$ 80,358,821
Cash paid to employees for wages and benefits	(47,354,074)	(50,204,191)
Cash paid to vendors for goods and services	(26,868,701)	(30,249,173)
Other operating receipts, net	3,115,489	3,273,105
Net cash flows from operating activities	7,482,047	3,178,562
<b>Cash flows from noncapital financing activities</b>		
Other nonoperating	387,560	178,650
Net cash flows from noncapital financing activities	387,560	178,650
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(1,833,406)	(4,932,093)
Interest expense on long-term debt	(1,201,519)	(1,188,573)
Proceeds from issuance of long-term debt	-0-	91,471
Principal payments on long-term debt, net	(1,840,898)	(2,194,637)
Net cash flows from capital and related financing activities	(4,875,823)	(8,223,832)
<b>Cash flows from investing activities</b>		
Investment income	1,996,507	2,938,031
Other assets	(24,488)	(254,047)
Change in assets whose use is limited, net	(656,006)	2,671,213
Change in investments, net	(1,487,235)	(1,388,618)
Net cash flows from investing activities	(171,222)	3,966,579
Net change in cash and cash equivalents	2,822,562	(900,041)
<b>Cash and cash equivalents</b>		
Beginning of year	3,639,360	4,539,401
End of year	\$ 6,461,922	\$ 3,639,360

See accompanying notes to combined financial statements.

# HENRY COUNTY HOSPITAL

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Reconciliation of operating income to net cash flows from operating activities</b>		
Operating income	\$ 196,803	\$ (1,387,907)
Adjustment to reconcile operating income to net cash flows from operating activities		
Depreciation and amortization	5,706,952	5,585,932
(Gain)/loss on disposal of assets	66,360	83,970
Bad debts	4,199,541	2,368,984
Changes in assets and liabilities		
Patient accounts receivable	(4,785,429)	(3,004,715)
Supplies and other current assets	1,285,256	(1,161,341)
Accounts payable and accrued expenses	737,051	829,027
Accrued salaries and related liabilities	234,445	337,194
Other long-term liabilities	(80,000)	(81,000)
Estimated third-party settlements	(78,932)	(391,582)
Net cash flows from operating activities	<u>\$ 7,482,047</u>	<u>\$ 3,178,562</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>		
Cash and cash equivalents		
In current assets	\$ 5,704,460	\$ 3,610,498
In investments and assets whose use is limited	757,462	28,862
Total cash and cash equivalents	<u>\$ 6,461,922</u>	<u>\$ 3,639,360</u>

See accompanying notes to combined financial statements.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006**

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### **1. SIGNIFICANT ACCOUNTING POLICIES**

#### Reporting Entity

Henry County Memorial Hospital d/b/a Henry County Hospital (the Hospital) is a county owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient healthcare.

The Board of County Commissioners of Henry County appoints the Governing Board of the Hospital (Board) and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Henry County.

On June 7, 1976, the Board of County Commissioners of Henry County, upon written request of the Henry County Hospital Board of Trustees created the Henry County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital.

#### Blended Component Units

Henry County Hospital Foundation, Inc. (the Foundation), is a significant component unit of the Hospital. The Hospital appoints a voting majority of the Foundation's Board of Directors and a financial benefit/burden relationship exists between the Hospital and the Foundation. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

The activities of the Foundation may include capital improvements, educational programs, medical related research and initial capital for experimental health services related to the principal purpose of the Hospital. The Foundation also manages investments and rental property, provides equipment, grants scholarships for health careers, conducts physician recruitment and other medical programs as directed under the terms of a contract with the Hospital. The Foundation's separate audited financial statements can be obtained by contacting the Foundation.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006**

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HCMH Diversified Management Corporation (DMC) is a significant component unit of the Hospital. The Hospital is the sole shareholder and appoints DMC's Board of Directors and is able to impose its will. Although it is legally separate from the Hospital, DMC is reported as if it were a part of the Hospital because the two Boards of Directors/Trustees are substantially the same.

DMC provides laboratory services to the patients of New Castle Family Physicians, nursing homes, employees of the Hospital, physicians and veterinarians in the surrounding area. The performance of tests on the specimens collected by DMC is purchased from the Hospital. DMC also provides pharmacy services to the surrounding communities. DMC's separate audited financial statements can be obtained by directly contacting DMC.

DMC purchased Henry County Urgent Care, LLC in 2004 from the Hospital. Urgent Care, LLC operates an emergency care physician office located in a shopping center in New Castle.

DMC purchased New Castle Clinic, Inc. on January 1, 2005, which operates a physician group practice. DMC's results within these financials include those of the Clinic for the years ended December 31, 2007 and 2006.

All intercompany accounts and transactions have been eliminated.

### Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the Hospital does not collect amounts deemed to be charity care, they are not reported as revenue.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

### Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity of three months or less.

### Restricted Cash Equivalents

The restricted cash equivalents consist of money market investments accumulated from monthly deposits the Hospital and Foundation are required to make to the Trustee for long-term bonds for payment of interest and bond principal that matures each April.

### Patient Accounts Receivable, Net and Net Patient Service Revenues

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Management estimates an allowance for accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare patients. The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. These programs have audited the year-end cost report filed with the Medicare program through December 31, 2005, with differences reflected as deductions from revenue in 2007. Amounts for the unresolved cost reports as well as other allowances are reflected in estimated third-party settlements on the balance sheets.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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Revenue from Medicare and Medicaid programs accounted for approximately 37 percent and 6 percent of the Hospital's net patient service revenue for the years ended 2007 and 2006.

### Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash consists of cash that is readily available for use in operations. Cash paid for interest was approximately \$1,201,000 and \$1,189,000 for 2007 and 2006, respectively.

### Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

### Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value. The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments. The fair value of the long-term debt also approximates the carrying value.

### Assets Whose Use Is Limited

Assets whose use is limited consists of investments and includes assets that are trustee-held funds for the retirement of debt obligations and assets internally designated by the Board for acquisition of property and equipment and debt service.

### Capital Assets

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities which exceed \$1,000 and meet certain useful life thresholds. Contributed capital assets are reported at their estimated fair market value at the time of their donation. Maintenance, repairs and minor renewals are expensed as incurred.



# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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All capital assets, other than land, are depreciated using the straight-line method of depreciation using these asset lives:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	5 - 30 years
Buildings and fixed equipment	3 - 50 years
Major movable equipment	3 - 20 years

### Goodwill and Intangible Assets

Goodwill totaling \$8,966,112 was recognized when DMC purchased a physician clinic during 2005. A portion of the goodwill was subsequently sold to the Hospital for a \$2,340,000, seven year, 7% note receivable to compensate DMC for the transfer of the clinic radiology department profit. The radiology department equipment was sold to the Hospital and the Hospital operates the radiology department. DMC analyzed the expected future earnings of the clinic and determined the remaining goodwill had been entirely impaired and a goodwill impairment expense of \$6,626,112 was recognized during 2005. The Hospital evaluates goodwill on an annual basis, or sooner if necessary, for potential impairment in accordance with Statement of Financial Accounts Standards (SFAS) No. 142.

### Grants and Contributions

From time to time, the Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

### Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Net Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures and internally designated by the board of directors. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

### Operating Revenues and Expenses

The Hospital's statement of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services—the Hospital's principal activity. Nonoperating revenues include contributions received for purposes other than capital asset acquisition, and other nonoperating activities and are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### Compensated Absences

Regular employees of the Hospital earn paid days off (PDO) at rates of twenty-three days to thirty-nine days per year, based on the length of continuous employment and regular hours worked. PDO is adjusted proportionately to hours worked for employees working less than full time. No limit exists on the amount of PDO that may be accumulated. Accrued PDO is paid to employees who resign, giving a two-week notice or in the event of death. All employees may elect to be paid for PDO accumulated in excess of ten days. This option is available twice during the calendar year. The Hospital tracks the PDO accrual on a bi-weekly basis computed on the hourly rate and PDO balance per employee, and the financial statements recognize this liability. Accumulated PDO is reported as a current liability in the amount of \$1,853,534 and \$1,801,171 for 2007 and 2006, respectively.

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits.

# **HENRY COUNTY HOSPITAL**

## **NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006**

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Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during either 2007 or 2006.

### Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax under Section 115 of the Internal Revenue Code of 1986 as a not-for-profit organization under Section 501(c)(3). Henry County Hospital Foundation, Inc. is a 501(c)(3) not-for-profit organization. HCMH Diversified Management Corporation is a for-profit organization incorporated in 1985 and the sole shareholder is the Hospital.

### Litigation

The Hospital is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

### Reclassifications

Certain amounts from 2006 have been reclassified in order to conform to the 2007 presentation.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 2. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31 are as follows:

	2007	2006
Patient accounts receivable		
Receivable from patients and their insurance carriers	\$ 15,154,163	\$ 12,783,839
Receivable from Medicare	5,493,417	4,934,675
Receivable from Medicaid	1,803,494	1,936,605
Total patient accounts receivable	22,451,074	19,655,119
Less contractual allowances	(7,508,658)	(6,325,625)
Less allowance for uncollectible amounts	(4,049,938)	(3,022,904)
Patient accounts receivable, net	<u>\$ 10,892,478</u>	<u>\$ 10,306,590</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes)	\$ 2,624,228	\$ 2,482,435
Payable to suppliers	4,641,118	3,904,067
Accrued employee health benefit claims	599,085	506,433
Total accounts payable and accrued expenses	<u>\$ 7,864,431</u>	<u>\$ 6,892,935</u>

### 3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The charity care provided during 2007 and 2006 was approximately \$5,296,468 and \$4,909,890, respectively.

### 4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

#### Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. The Hospital designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investment accounts is left to accumulate as an addition to the funds.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### Trustee Held Assets

The Hospital deposited investments with a trustee which will be utilized to provide for debt service.

Assets that are required for obligations classified as current liabilities are reported in current assets. The composition of assets whose use is limited at December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Board designated		
Funded depreciation		
Investments	\$ 8,558,746	\$ 7,920,624
Trustee held assets		
Short-term investments	<u>277,113</u>	<u>259,229</u>
Total assets limited to use	<u>\$ 8,835,859</u>	<u>\$ 8,179,853</u>

## 5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depositary Insurance Corporation or by the Indiana Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Funded depreciation investments consist of cash equivalents, mutual funds and U.S. Government securities. Market value approximated cost as of December 31, 2007 and 2006.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2007 and 2006, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

December 31, 2007

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 526,488	\$ 277,113	\$ 249,375	\$ -0-	\$ -0-
Mutual funds	26,417,335	26,417,335	-0-	-0-	-0-
	<u>\$ 26,943,823</u>	<u>\$ 26,694,448</u>	<u>\$ 249,375</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

December 31, 2006

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
US Government Securities	\$ 1,178,444	\$ 259,229	\$ 919,215	\$ -0-	\$ -0-
Mutual funds	22,893,538	22,893,538	-0-	-0-	-0-
	<u>\$ 24,071,982</u>	<u>\$ 23,152,767</u>	<u>\$ 919,215</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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Deposits and investments consist of the following as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Carrying amount		
Deposits	\$ 5,704,460	\$ 3,610,498
Investments	<u>26,943,823</u>	<u>24,071,982</u>
	<u>\$ 32,648,283</u>	<u>\$ 27,682,480</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 5,441,917	\$ 3,363,648
Restricted cash equivalents	262,543	246,850
Investments	18,107,964	15,892,129
Internally designated	8,558,746	7,920,624
Held by trustee for debt service	<u>277,113</u>	<u>259,229</u>
	<u>\$ 32,648,283</u>	<u>\$ 27,682,480</u>

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

### 6. CAPITAL ASSETS

A summary of capital asset additions, retirements and balances at and for the years ended December 31 is as follows:

	Balance December 31, 2006	Additions	Retirements	Transfers	Balance December 31, 2007
Land	\$ 1,881,598	\$ 55,312	\$ -0-	\$ -0-	\$ 1,936,910
Land improvements	1,639,746	-0-	(28,535)	-0-	1,611,211
Buildings and improvements	58,075,430	19,381	(169,145)	52,675	57,978,341
Fixed equipment	14,535,982	95,183	-0-	25,482	14,656,647
Major equipment	23,073,146	1,332,277	(1,698,932)	1,613,977	24,320,468
Minor equipment	494,678	-0-	(92,694)	-0-	401,984
Construction in progress	1,379,396	331,253	-0-	(1,692,134)	18,515
Total capital assets	101,079,976	1,833,406	(1,989,306)	-0-	100,924,076
Less accumulated depreciation:					
Land improvements	(1,461,307)	(23,404)	-0-	-0-	(1,484,711)
Buildings and improvements	(21,164,020)	(1,861,827)	109,145	-0-	(22,916,702)
Fixed equipment	(10,685,961)	(594,690)	-0-	-0-	(11,280,651)
Major equipment	(15,530,411)	(3,126,471)	1,713,241	-0-	(16,943,641)
Minor equipment	(27,706)	-0-	-0-	-0-	(27,706)
Total accumulated depreciation	(48,869,405)	(5,606,392)	1,822,386	-0-	(52,653,411)
Capital assets, net	\$ 52,210,571	\$ (3,772,986)	\$ (166,920)	\$ -0-	\$ 48,270,665

	Balance December 31, 2005	Additions	Retirements	Transfers	Balance December 31, 2006
Land	\$ 1,686,360	\$ 195,238	\$ -0-	\$ -0-	\$ 1,881,598
Land improvements	1,611,211	-0-	-0-	28,535	1,639,746
Buildings and improvements	54,335,020	220,024	-0-	3,520,386	58,075,430
Fixed equipment	13,476,002	159,732	-0-	900,248	14,535,982
Major equipment	21,365,215	1,384,363	(611,942)	935,510	23,073,146
Minor equipment	494,678	-0-	-0-	-0-	494,678
Construction in progress	3,791,259	2,972,816	-0-	(5,384,679)	1,379,396
Total capital assets	96,759,745	4,932,173	(611,942)	-0-	101,079,976
Less accumulated depreciation:					
Land improvements	(1,434,412)	(26,895)	-0-	-0-	(1,461,307)
Buildings and improvements	(19,272,761)	(1,891,259)	-0-	-0-	(21,164,020)
Fixed equipment	(10,140,757)	(545,204)	-0-	-0-	(10,685,961)
Major equipment	(13,019,249)	(2,997,908)	486,746	-0-	(15,530,411)
Minor equipment	(27,706)	-0-	-0-	-0-	(27,706)
Total accumulated depreciation	(43,894,885)	(5,461,266)	486,746	-0-	(48,869,405)
Capital assets, net	\$ 52,864,860	\$ (529,093)	\$ (125,196)	\$ -0-	\$ 52,210,571



# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 7. LONG-TERM DEBT

The Hospital and Foundation participated in an Indiana Health Facility Financing Authority Adjustable Rate Demand Revenue Bonds, Series 2002 issue to assist with the retiring of the 1991 and 1998 bond issues and finance the construction of an assisted living facility as well as various other remodeling and upgrade projects at the Hospital. The bonds are to be repaid in twenty annual payments ranging from \$620,000 to \$1,540,000 with a variable rate of interest. The 2002 bonds have a variable interest rate which is 3.6% and 3.4% at December 31, 2007 and 2006, respectively. The bonds are also backed by a five year letter of credit to provide credit enhancement and liquidity support for the bonds.

During 2004, the Foundation financed the purchase of equipment with a 6%, 5 year installment loan. The machine cost \$978,338 and the monthly payments are \$18,912.

During 2004, the Hospital entered into capital lease obligations with approximately 6 percent imputed interest rates collateralized by the leased equipment with a cost of \$46,100. Accumulated depreciation on capitalized assets totaled \$32,270 and \$23,050 as of December 31, 2007 and 2006, respectively.

Effective March 1, 2005, the Hospital issued \$7,500,000 of Series 1985 A Indiana Health Facility Financing Authority bonds. The proceeds will be used for various construction and remodeling projects, including the remodeling of the Progressive Care Unit, Emergency Room and Intensive Care Unit. The bonds have a variable interest rate of 4.5% and 3.5% at December 31, 2007 and 2006, respectively, and due in monthly installments of approximately \$90,200 through March 2015.

During December 2005, the Foundation purchased an MRI machine for \$1,518,000 which was financed with a 5 year, 4.38% loan with monthly payments of \$29,241.

During 2005, DMC financed various equipment purchases with 4-13% installment loans payable in monthly or annual installments with maturity dates ranging from 2006 to 2012.

During 2006, the Hospital entered into a capital lease obligation with approximately 6.6% interest collateralized by the leased equipment with a cost of \$91,400. Accumulated depreciation on the capitalized assets totaled \$22,820 and \$9,148 as of December 31, 2007 and 2006, respectively.

During 2007, the Hospital entered into a capital lease obligation with approximately 3.1% interest collateralized by the leased equipment with a cost of \$83,123. Accumulated depreciation on the capitalized assets totaled \$5,129 as of December 31, 2007.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

During 2007, the Hospital entered into a capital lease obligation with approximately 2.5% interest collateralized by the leased equipment with a cost of \$51,757. Accumulated depreciation on the capitalized assets totaled \$3,215 as of December 31, 2007.

A summary of long-term debt borrowing, payments and balances at and for the years ended December 31 are as follows:

	Balance December 31, 2006	Additional borrowings	Payments	Balance December 31, 2007	Current portion	Long-term portion
Demand Revenue Bonds, series 2002	\$ 17,635,000	\$ -0-	\$ 750,000	\$ 16,885,000	\$ 790,000	\$ 16,095,000
Demand Revenue Bonds, Series 1985 A	6,722,446	-0-	632,540	6,089,906	678,266	5,411,640
Installment loan payable	443,422	-0-	205,956	237,466	218,649	18,817
Equipment loan	1,219,516	-0-	285,420	934,096	302,569	631,527
Installment loans payable	21,566	-0-	3,246	18,320	1,133	17,187
Capital leases	82,783	134,880	98,616	119,047	94,897	24,150
	<u>\$ 26,124,733</u>	<u>\$ 134,880</u>	<u>\$ 1,975,778</u>	<u>\$ 24,283,835</u>	<u>\$ 2,085,514</u>	<u>\$ 22,198,321</u>

  

	Balance December 31, 2005	Additional borrowings	Payments	Balance December 31, 2006	Current portion	Long-term portion
Demand Revenue Bonds, series 2002	\$ 18,350,000	\$ -0-	\$ 715,000	\$ 17,635,000	\$ 750,000	\$ 16,885,000
Demand Revenue Bonds, Series 1985 A	7,312,342	-0-	589,896	6,722,446	632,540	6,089,906
Installment loan payable	637,421	-0-	193,999	443,422	205,960	237,462
Equipment loan	1,518,000	-0-	298,484	1,219,516	256,174	963,342
Mortgage payable	329,983	-0-	329,983	-0-	-0-	-0-
Installment loans payable	48,932	-0-	27,366	21,566	5,732	15,834
Capital leases	31,221	91,471	39,909	82,783	40,306	42,477
	<u>\$ 28,227,899</u>	<u>\$ 91,471</u>	<u>\$ 2,194,637</u>	<u>\$ 26,124,733</u>	<u>\$ 1,890,712</u>	<u>\$ 24,234,021</u>

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

Scheduled principal repayments on long-term debt following December 31, 2007 are as follows:

Years Ending December 31,	Long-term debt		Capital leases	
	Principal	Interest	Principal	Interest
2008	\$ 1,990,617	\$ 888,865	\$ 94,897	\$ 6,243
2009	1,897,847	799,119	24,150	344
2010	1,964,388	712,768	-0-	-0-
2011	1,749,988	630,759	-0-	-0-
2012	1,855,439	555,335	-0-	-0-
2013-2017	7,691,509	1,680,917	-0-	-0-
2018-2022	7,015,000	384,125	-0-	-0-
	<u>\$ 24,164,788</u>	<u>\$ 5,651,888</u>	<u>\$ 119,047</u>	<u>\$ 6,587</u>

### 8. LETTERS OF CREDIT

The Foundation acquired a letter of credit to provide credit enhancement and liquidity support for the Series 2002 Indiana Health Facility Financing Hospital Adjustable Rate Demand Revenue Bonds. The Foundation participated with the Hospital in the new bond issue. The proceeds assisted with retiring the 1998 bond issue and helped finance the construction of an assisted living facility. The letter of credit for the 2002 bond issue is maintained at an amount sufficient to cover the outstanding obligation. The letter is due on June 1, 2008 with interest payable monthly at the bank's prime rate, not to exceed 10%.

The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Series 2002 Indiana Health Facility Financing Hospital Adjustable Rate Demand Revenue Bonds. The Hospital participated with the Foundation in the new bond issue. The proceeds assisted with retiring the 1991 and 1998 bond issues and helped finance remodeling projects and the clinical information system. The letter of credit for the 2002 bond issue is maintained at an amount sufficient to cover the outstanding obligation. The letter is due on June 1, 2008 with interest payable monthly at the bank's prime rate, not to exceed 10%. The letter of credit contains certain covenants for which the Hospital is in compliance.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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The Hospital acquired a letter of credit to provide credit enhancement and liquidity support for the Variable Rate Demand Insured Revenue Bonds, Series 1985 A. The proceeds helped finance the Progressive Care Unit, Lobby/Emergency Room/Imaging, and Critical Care Unit remodeling projects and the Picture Archiving Communications System (PACS) imaging equipment. The letter of credit for the Series 1985 A bond issue is maintained at an amount sufficient to cover the outstanding obligation. The letter is due on March 1, 2011, but a provision is maintained stating that the letter will have a full and final maturity equaling 10½ years. Interest is payable monthly at the bank's prime rate, not to exceed 10%. The letter of credit contains certain covenants for which the Hospital is in compliance.

### 9. NET PATIENT SERVICE REVENUE

Patient service revenue for 2007 and 2006 consists of the following:

	2007	2006
Inpatient services	\$ 49,931,796	\$ 45,049,493
Outpatient services	99,766,078	95,435,821
Gross patient service revenue	149,697,874	140,485,314
Contractual allowances	60,858,001	51,807,470
Bad debts	4,289,252	2,381,820
Charity care	5,296,468	4,909,890
Deductions from revenue	70,443,721	59,099,180
Net patient service revenue	<u>\$ 79,254,153</u>	<u>\$ 81,386,134</u>

The Hospital participates in the Indiana Medicaid Disproportionate Share Hospital (DSH) reimbursement program. The Hospital had net revenue of approximately \$1,845,000 and \$3,056,000 million for DSH in 2007 and 2006, respectively. This program is a Federal program administered by the state. There is currently a one year moratorium expiring in May of 2008 on a change in the regulation related to the Hospitals eligibility to participate in the program. The ultimate outcome and potential impact of the change in the regulation is unknown.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 10. PENSION PLANS

#### Plan Description

The Hospital has a defined contribution pension plan as authorized by IC 16-22-3-11. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes the financial statements and required supplementary information of the plan.

#### Funding Policy

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. Members make no contributions to the Plan; all contributions are made by the Hospital. The Hospital is required to contribute at the Board approved rate. For employees hired before July 1, 2003 the rate is 7% on the first \$9,998 of covered wages and 12.7% on the amount over \$9,998 and for employees hired on or after July 1, 2003, their pension rate is 6% on all earnings. Hospital contributions to the plan for 2007 and 2006 were approximately \$2,515,000 and \$2,572,000, respectively.

During 2006, the Hospital funded \$2,000,000 in premiums towards a Split-Dollar Life Insurance Agreement for a key employee that is recorded in Other Assets. The Hospital is the sole and absolute owner of the related Life Insurance Policy. The Agreement was used to fund a supplemental retirement benefit plan. In the event the employee remains employed by the Hospital at least until reaching sixty five years of age, or as is otherwise provided in the Agreement, beginning with the Retirement Date, the Hospital will pay an annual benefit, as is stipulated in the Agreement until the death of the employee. An amount of \$15,200 was recorded during the current year to accrue for the death benefit liability associated with the Life Insurance Policy.

### 11. EMPLOYEE HEALTH PLAN

The Hospital participates in a self-funded health plan covering substantially all employees. Covered services include medical benefits. The plan has annual reinsurance coverage at a specific level of \$175,000. The financial statements include an estimated provision for claims that have been incurred but not reported. Total health claims expense was approximately \$5,045,000 and \$7,500,000 for the years ended December 31, 2007 and 2006, respectively.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 12. NET ASSETS RESTRICTED BY DONOR

Net assets restricted by donor of \$896,034 and \$835,141 at December 31, 2007 and 2006, respectively, consist of donor-restricted funds held by the Foundation primarily for Hospital construction projects.

### 13. MALPRACTICE INSURANCE

#### Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. During 2001, the Hospital's malpractice carrier filed bankruptcy. The Hospital has obtained malpractice coverage through another carrier. The Hospital may be liable for certain pending claims incurred while with the former carrier. Management is not aware of any related material adverse effects to its financial condition. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Effective July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year.

# HENRY COUNTY HOSPITAL

## NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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### 14. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements as follows:

	<u>2007</u>	<u>2006</u>
Medicare and Medicaid	38%	41%
Commercial and other payors	44%	44%
Self-pay	18%	15%
	<u>100%</u>	<u>100%</u>

## **SUPPLEMENTARY INFORMATION**



# HENRY COUNTY HOSPITAL

## COMBINING BALANCE SHEETS DECEMBER 31, 2007

	ASSETS				
	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 3,211,477	\$ 640,293	\$ 1,590,147	\$ -0-	\$ 5,441,917
Restricted cash equivalents	-0-	262,543	-0-	-0-	262,543
Patient accounts receivable, net	8,576,893	-0-	2,315,585	-0-	10,892,478
Supplies and other current assets	876,995	86,780	216,491	(2,395)	1,177,871
Due from related parties	1,748,372	255,238	612,325	(2,615,935)	-0-
Current portion of assets whose use is limited	1,177,988	-0-	-0-	-0-	1,177,988
Total current assets	15,591,725	1,244,854	4,734,548	(2,618,330)	18,952,797
<b>Investments</b>					
	4,293,812	13,814,152	-0-	-0-	18,107,964
<b>Assets whose use is limited</b>					
Internally designated	8,558,746	-0-	-0-	-0-	8,558,746
Held by trustee	277,113	-0-	-0-	-0-	277,113
Less current portion	8,835,859	-0-	-0-	-0-	8,835,859
Total assets whose use is limited	1,177,988	-0-	-0-	-0-	1,177,988
	7,657,871	-0-	-0-	-0-	7,657,871
<b>Capital assets, net</b>	29,000,010	19,056,709	213,946	-0-	48,270,665
<b>Other assets</b>					
Total assets	6,156,935	214,949	1,646,212	(2,927,122)	5,090,974
	\$ 62,700,353	\$ 34,330,664	\$ 6,594,706	\$ (5,545,452)	\$ 98,080,271

# HENRY COUNTY HOSPITAL

## COMBINING BALANCE SHEETS DECEMBER 31, 2007

### LIABILITIES AND NET ASSETS

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 1,177,988	\$ 906,394	\$ 34,444	\$ (33,312)	\$ 2,085,514
Accounts payable and accrued expenses	2,291,874	169,131	2,272,280	(92,167)	4,641,118
Accrued wages and related liabilities	3,223,313	-0-	-0-	-0-	3,223,313
Estimated third-party settlements	434,486	-0-	-0-	-0-	434,486
Due to related parties	684,361	158,074	3,067,738	(3,910,173)	-0-
Total current liabilities	7,812,022	1,233,599	5,374,462	(4,035,652)	10,384,431
<b>Other long-term liabilities</b>	1,470,709	-0-	80,000	(1,470,709)	80,000
<b>Long-term debt, net of current portion</b>	13,683,435	8,497,698	31,279	(14,091)	22,198,321
Total liabilities	22,966,166	9,731,297	5,485,741	(5,520,452)	32,662,752
<b>Net assets</b>					
Unrestricted	16,759,741	14,050,716	960,742	(25,000)	31,746,199
Invested in capital assets, net of related debt	14,138,587	9,652,617	148,223	-0-	23,939,427
Restricted					
Expendable - debt service	277,113	-0-	-0-	-0-	277,113
Expendable - funded depreciation	8,558,746	-0-	-0-	-0-	8,558,746
By donor - expendable - for capital acquisition	-0-	896,034	-0-	-0-	896,034
Total net assets	39,734,187	24,599,367	1,108,965	(25,000)	65,417,519
Total liabilities and net assets	\$ 62,700,353	\$ 34,330,664	\$ 6,594,706	\$ (5,545,452)	\$ 98,080,271

# HENRY COUNTY HOSPITAL

## COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2007

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Operating revenue</b>					
Net patient service revenue	\$ 59,220,465	\$ 1,220,780	\$ 21,026,891	\$ (2,213,983)	\$ 79,254,153
Other revenue	2,713,131	4,037,238	-0-	(2,687,196)	4,063,173
Total revenue	61,933,596	5,258,018	21,026,891	(4,901,179)	83,317,326
<b>Operating expenses</b>					
Salaries and benefits	38,526,435	-0-	10,227,647	(1,165,563)	47,588,519
Medical professional fees	1,107,890	-0-	1,057,561	-0-	2,165,451
Other professional fees	3,307,087	-0-	1,658,164	(94,652)	4,870,599
Medical supplies and drugs	6,737,903	-0-	7,699,079	(1,121,897)	13,315,085
Other supplies	752,823	-0-	124,155	-0-	876,978
Depreciation and amortization	4,481,348	1,094,398	131,206	-0-	5,706,952
Utilities	1,400,549	-0-	135,321	-0-	1,535,870
Rent	1,719,099	-0-	419,347	(1,275,764)	862,682
Other	3,361,488	2,964,623	1,115,579	(1,243,303)	6,198,387
Total expenses	61,394,622	4,059,021	22,568,059	(4,901,179)	83,120,523
Operating income	538,974	1,198,997	(1,541,168)	-0-	196,803
<b>Nonoperating income (expense)</b>					
Investment income	997,562	1,021,235	173,727	(196,017)	1,996,507
Interest expense	(874,292)	(472,099)	(51,145)	196,017	(1,201,519)
Other nonoperating	129,141	107,342	151,077	-0-	387,560
Total nonoperating income (expense)	252,411	656,478	273,659	-0-	1,182,548
Change in net assets	791,385	1,855,475	(1,267,509)	-0-	1,379,351
<b>Net assets beginning of year</b>	38,942,802	22,743,892	2,376,474	(25,000)	64,038,168
<b>Net assets end of year</b>	\$ 39,734,187	\$ 24,599,367	\$ 1,108,965	\$ (25,000)	\$ 65,417,519

See Report of Independent Auditors on Page 1 and 2.

# HENRY COUNTY HOSPITAL

## COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2007

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Cash flows from operating activities</b>					
Cash received from patients and third party payors	\$ 58,744,306	\$ 1,220,780	\$ 20,953,375	\$ (2,329,128)	\$ 78,589,333
Cash paid to employees for wages and benefits	(38,291,990)	-0-	(10,227,647)	1,165,563	(47,354,074)
Cash paid to vendors for goods and services	(16,743,520)	(3,159,370)	(11,244,472)	4,278,661	(26,868,701)
Other operating receipts, net	1,584,067	4,365,989	-0-	(2,834,567)	3,115,489
Net cash flows from operating activities	5,292,863	2,427,399	(518,744)	280,529	7,482,047
<b>Cash flows from noncapital financing activities</b>					
Other nonoperating	129,141	107,342	151,077	-0-	387,560
Net cash flows from noncapital financing activities	129,141	107,342	151,077	-0-	387,560
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(1,219,918)	(565,466)	(48,022)	-0-	(1,833,406)
Interest expense on long-term debt	(874,292)	(472,099)	(51,145)	196,017	(1,201,519)
Principal payments on long-term debt, net	(980,603)	(857,049)	(32,291)	29,045	(1,840,898)
Net cash flows from capital and related financing activities	(3,074,813)	(1,894,614)	(131,458)	225,062	(4,875,823)
<b>Cash flows from investing activities</b>					
Investment income	997,562	1,021,235	173,727	(196,017)	1,996,507
Other assets	(62,857)	11,035	336,908	(309,574)	(24,488)
Change in assets whose use is limited, net	(656,006)	-0-	-0-	-0-	(656,006)
Change in investments, net	499,808	(1,987,043)	-0-	-0-	(1,487,235)
Net cash flows from investing activities	778,507	(954,773)	510,635	(505,591)	(171,222)
Net change in cash and cash equivalents	3,125,698	(314,646)	11,510	-0-	2,822,562
<b>Cash and cash equivalents</b>					
Beginning of year	843,241	1,217,482	1,578,637	-0-	3,639,360
End of year	\$ 3,968,939	\$ 902,836	\$ 1,590,147	\$ -0-	\$ 6,461,922

# HENRY COUNTY HOSPITAL

## COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2007

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ 538,974	\$ 1,198,997	\$ (1,541,168)	\$ -0-	\$ 196,803
Adjustment to reconcile operating income to net cash flows from operating activities:					
Depreciation and amortization	4,481,348	1,094,398	131,206	-0-	5,706,952
Bad debts	4,199,541	-0-	-0-	-0-	4,199,541
(Gain)/Loss on disposal	66,360	-0-	-0-	-0-	66,360
Changes in assets and liabilities:					
Patient accounts receivable	(4,596,768)	-0-	(73,516)	(115,145)	(4,785,429)
Supplies and other current assets	1,307,580	(5,535)	(19,184)	2,395	1,285,256
Accounts payable and accrued expenses	645,313	(189,212)	49,874	231,076	737,051
Accrued salaries and related liabilities	234,445	-0-	-0-	-0-	234,445
Other long-term liabilities	(309,574)	-0-	(80,000)	309,574	(80,000)
Due from (to) related parties	(1,195,424)	328,751	1,014,044	(147,371)	-0-
Estimated third-party settlements	(78,932)	-0-	-0-	-0-	(78,932)
Net cash flows from operating activities	\$ 5,292,863	\$ 2,427,399	\$ (518,744)	\$ 280,529	\$ 7,482,047
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 3,211,477	\$ 902,836	\$ 1,590,147	\$ -0-	\$ 5,704,460
In investments	757,462	-0-	-0-	-0-	757,462
In assets whose use is limited	-0-	-0-	-0-	-0-	-0-
Total cash and cash equivalents	\$ 3,968,939	\$ 902,836	\$ 1,590,147	\$ -0-	\$ 6,461,922

# HENRY COUNTY HOSPITAL

## SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2007 AND 2006

	Hospital 2007	NCFP 2007	NCP 2007	Total 2007	Total 2006	Change
<b>Operating revenue</b>						
Net patient service revenue	\$ 56,401,170	\$ 1,621,724	\$ 1,197,571	\$ 59,220,465	\$ 59,986,919	\$ (766,454)
Other revenue	1,974,631	236,255	502,245	2,713,131	2,199,815	513,316
Total revenue	58,375,801	1,857,979	1,699,816	61,933,596	62,186,734	(253,138)
<b>Operating expenses</b>						
Salaries and benefits	34,678,370	2,235,115	1,612,950	38,526,435	41,555,057	(3,028,622)
Medical professional fees	1,091,672	16,218	0	1,107,890	1,395,655	(287,765)
Other professional fees	3,115,236	91,654	100,197	3,307,087	2,607,621	699,466
Medical supplies and drugs	6,551,767	74,100	112,036	6,737,903	6,290,232	447,671
Other supplies	732,188	18,331	2,304	752,823	794,485	(41,662)
Depreciation and amortization	4,397,214	84,134	-0-	4,481,348	4,396,986	84,362
Utilities	1,376,601	6,904	17,044	1,400,549	1,531,038	(130,489)
Rent	1,271,210	375,673	72,216	1,719,099	1,699,699	19,400
Other	3,232,930	61,329	67,229	3,361,488	3,280,108	81,380
Total expenses	56,447,188	2,963,458	1,983,976	61,394,622	63,550,881	(2,156,259)
Operating income (loss)	1,928,613	(1,105,479)	(284,160)	538,974	(1,364,147)	1,903,121
<b>Nonoperating income (expense)</b>						
Investment income	996,923	-0-	639	997,562	1,505,496	(507,934)
Interest expense	(874,292)	-0-	-0-	(874,292)	(842,504)	(31,788)
Other nonoperating	129,190	562	(611)	129,141	6,368	122,773
Total nonoperating income (expense)	251,821	562	28	252,411	669,360	(416,949)
Change in net assets	\$ 2,180,434	\$ (1,104,917)	\$ (284,132)	\$ 791,385	\$ (694,787)	\$ 1,486,172

# HENRY COUNTY HOSPITAL

## SUPPLEMENTAL SCHEDULE OF HOSPITAL OPERATIONS YEARS ENDED DECEMBER 31, 2006 AND 2005

	Hospital 2006	NCFP 2006	NCP 2006	Total 2006	Total 2005	Change
<b>Operating revenue</b>						
Net patient service revenue	\$ 57,243,806	\$ 1,688,541	\$ 1,054,572	\$ 59,986,919	\$ 56,655,183	\$ 3,331,736
Other revenue	1,489,090	259,543	451,182	2,199,815	1,799,616	400,199
Total revenue	58,732,896	1,948,084	1,505,754	62,186,734	58,454,799	3,731,935
<b>Operating expenses</b>						
Salaries and benefits	37,826,870	2,333,437	1,394,750	41,555,057	37,591,093	3,963,964
Medical professional fees	1,370,893	24,762	-0-	1,395,655	1,198,216	197,439
Other professional fees	2,456,376	43,783	107,462	2,607,621	1,971,216	636,405
Medical supplies and drugs	6,117,750	81,949	90,533	6,290,232	6,707,215	(416,983)
Other supplies	769,676	22,072	2,737	794,485	1,114,761	(320,276)
Depreciation and amortization	4,289,853	107,133	-0-	4,396,986	3,657,949	739,037
Utilities	1,507,180	9,162	14,696	1,531,038	1,305,292	225,746
Rent	1,265,400	362,317	71,982	1,699,699	1,879,437	(179,738)
Other	3,165,760	80,220	34,128	3,280,108	2,825,541	454,567
Total expenses	58,769,758	3,064,835	1,716,288	63,550,881	58,250,720	5,300,161
Operating income (loss)	(36,862)	(1,116,751)	(210,534)	(1,364,147)	204,079	(1,568,226)
<b>Nonoperating income (expense)</b>						
Investment income	1,504,778	-0-	718	1,505,496	1,180,803	324,693
Interest expense	(842,504)	-0-	-0-	(842,504)	(475,245)	(367,259)
Other nonoperating	8,215	849	(2,696)	6,368	251,595	(245,227)
Total nonoperating income (expense)	670,489	849	(1,978)	669,360	957,153	(287,793)
Excess (deficit) revenues over expenses before equity transfers	633,627	(1,115,902)	(212,512)	(694,787)	1,161,232	(1,856,019)
<b>Other changes in net assets</b>						
Equity transfer to subsidiary	-0-	-0-	-0-	-0-	(10,239,218)	10,239,218
Change in net assets	\$ 633,627	\$ (1,115,902)	\$ (212,512)	\$ (694,787)	\$ (9,077,986)	\$ 8,383,199

# HENRY COUNTY HOSPITAL

## COMBINING BALANCE SHEETS DECEMBER 31, 2006

### ASSETS

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current assets</b>					
Cash and cash equivalents	\$ 814,379	\$ 970,632	\$ 1,578,637	\$ -0-	\$ 3,363,648
Restricted cash equivalents	-0-	246,850	-0-	-0-	246,850
Patient accounts receivable, net	8,179,666	-0-	2,242,069	(115,145)	10,306,590
Supplies and other current assets	2,184,575	81,245	197,307	-0-	2,463,127
Due from related parties	866,157	542,150	543,015	(1,951,322)	-0-
Current portion of assets whose use is limited	1,057,172	-0-	-0-	-0-	1,057,172
Total current assets	13,101,949	1,840,877	4,561,028	(2,066,467)	17,437,387
<b>Investments</b>					
	4,065,020	11,827,109	-0-	-0-	15,892,129
<b>Assets whose use is limited</b>					
Internally designated	7,920,624	-0-	-0-	-0-	7,920,624
Held by trustee	259,229	-0-	-0-	-0-	259,229
Less current portion	8,179,853	-0-	-0-	-0-	8,179,853
Total assets whose use is limited	1,057,172	-0-	-0-	-0-	1,057,172
	7,122,681	-0-	-0-	-0-	7,122,681
<b>Capital assets, net</b>					
	32,327,800	19,585,641	297,130	-0-	52,210,571
<b>Other assets</b>					
Total assets	6,094,078	225,984	1,983,120	(3,236,696)	5,066,486
	\$ 62,711,528	\$ 33,479,611	\$ 6,841,278	\$ (5,303,163)	\$ 97,729,254



# HENRY COUNTY HOSPITAL

## COMBINING BALANCE SHEETS DECEMBER 31, 2006

### LIABILITIES AND NET ASSETS

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Current liabilities</b>					
Current portion of long-term debt	\$ 1,057,172	\$ 827,808	\$ 32,290	\$ (26,558)	\$ 1,890,712
Accounts payable and accrued expenses	1,646,561	358,343	2,222,406	(323,243)	3,904,067
Accrued wages and related liabilities	2,988,868	-0-	-0-	-0-	2,988,868
Estimated third-party settlements	513,418	-0-	-0-	-0-	513,418
Due to related parties	997,570	116,235	1,984,384	(3,098,189)	-0-
Total current liabilities	7,203,589	1,302,386	4,239,080	(3,447,990)	9,297,065
<b>Other long-term liabilities</b>					
	1,780,283	-0-	160,000	(1,780,283)	160,000
<b>Long-term debt, net of current portion</b>					
Total liabilities	14,784,854	9,433,333	65,724	(49,890)	24,234,021
	23,768,726	10,735,719	4,464,804	(5,278,163)	33,691,086
<b>Net assets</b>					
Unrestricted					
Invested in capital assets, net of related debt	14,277,175	12,584,251	2,177,358	(25,000)	29,013,784
Restricted	16,485,774	9,324,500	199,116	-0-	26,009,390
Expendable - debt service	259,229	-0-	-0-	-0-	259,229
Expendable - funded depreciation	7,920,624	-0-	-0-	-0-	7,920,624
By donor - expendable - for capital acquisition	-0-	835,141	-0-	-0-	835,141
Total net assets	38,942,802	22,743,892	2,376,474	(25,000)	64,038,168
Total liabilities and net assets	\$ 62,711,528	\$ 33,479,611	\$ 6,841,278	\$ (5,303,163)	\$ 97,729,254

# HENRY COUNTY HOSPITAL

## COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2006

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Operating revenue</b>					
Net patient service revenue	\$ 59,986,919	\$ 1,256,650	\$ 22,365,875	\$ (2,223,310)	\$ 81,386,134
Other revenue	2,199,815	3,760,794	-0-	(2,789,773)	3,170,836
Total revenue	62,186,734	5,017,444	22,365,875	(5,013,083)	84,556,970
<b>Operating expenses</b>					
Salaries and benefits	41,555,057	-0-	10,367,320	(1,380,992)	50,541,385
Medical professional fees	1,395,655	-0-	967,636	(826,364)	1,536,927
Other professional fees	2,607,621	-0-	1,800,412	(90,000)	4,318,033
Medical supplies and drugs	6,290,232	-0-	8,392,545	(40,392)	14,642,385
Other supplies	794,485	-0-	165,434	-0-	959,919
Depreciation and amortization	4,396,986	1,055,899	133,047	-0-	5,585,932
Utilities	1,531,038	-0-	161,706	-0-	1,692,744
Rent	1,699,699	-0-	422,025	(171,727)	1,949,997
Other	3,280,108	2,854,600	1,086,455	(2,503,608)	4,717,555
Total expenses	63,550,881	3,910,499	23,496,580	(5,013,083)	85,944,877
Operating income	(1,364,147)	1,106,945	(1,130,705)	-0-	(1,387,907)
<b>Nonoperating income (expense)</b>					
Investment income	1,505,496	1,472,540	176,830	(216,835)	2,938,031
Interest expense	(842,504)	(498,362)	(64,542)	216,835	(1,188,573)
Other nonoperating	6,368	107,916	64,366	-0-	178,650
Total nonoperating income (expense)	669,360	1,082,094	176,654	-0-	1,928,108
Change in net assets	(694,787)	2,189,039	(954,051)	-0-	540,201
<b>Net assets beginning of year</b>	39,637,589	20,554,853	3,330,525	(25,000)	63,497,967
<b>Net assets end of year</b>	<u>\$ 38,942,802</u>	<u>\$ 22,743,892</u>	<u>\$ 2,376,474</u>	<u>\$ (25,000)</u>	<u>\$ 64,038,168</u>

See Report of Independent Auditors on Page 1 and 2.

# HENRY COUNTY HOSPITAL

## COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2006

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Cash flows from operating activities</b>					
Cash received from patients and third party payors	\$ 59,252,942	\$ 1,256,650	\$ 22,499,907	\$ (2,650,678)	\$ 80,358,821
Cash paid to employees for wages and benefits	(41,217,863)	-0-	(10,367,320)	1,380,992	(50,204,191)
Cash paid to vendors for goods and services	(19,032,969)	(2,741,820)	(12,908,778)	4,434,394	(30,249,173)
Other operating receipts, net	2,936,259	3,172,706	-0-	(2,835,860)	3,273,105
Net cash flows from operating activities	1,938,369	1,687,536	(776,191)	328,848	3,178,562
<b>Cash flows from noncapital financing activities</b>					
Other nonoperating	6,368	107,916	64,366	-0-	178,650
Net cash flows from noncapital financing activities	6,368	107,916	64,366	-0-	178,650
<b>Cash flows from capital and related financing activities</b>					
Acquisition and construction of capital assets	(3,635,448)	(1,236,751)	(59,894)	-0-	(4,932,093)
Interest expense on long-term debt	(842,504)	(498,362)	(64,542)	216,835	(1,188,573)
Principal payments on long-term debt, net	(904,725)	(841,092)	(384,503)	27,154	(2,103,166)
Net cash flows from capital and related financing activities	(5,382,677)	(2,576,205)	(508,939)	243,989	(8,223,832)
<b>Cash flows from investing activities</b>					
Investment income	1,505,496	1,472,540	176,830	(216,835)	2,938,031
Other assets	(101,207)	(113,493)	316,655	(356,002)	(254,047)
Change in assets whose use is limited, net	2,671,213	-0-	-0-	-0-	2,671,213
Change in investments, net	(347,698)	(1,040,920)	-0-	-0-	(1,388,618)
Net cash flows from investing activities	3,727,804	318,127	493,485	(572,837)	3,966,579
Net change in cash and cash equivalents	289,864	(462,626)	(727,279)	-0-	(900,041)
<b>Cash and cash equivalents</b>					
Beginning of year	553,377	1,680,108	2,305,916	-0-	4,539,401
End of year	\$ 843,241	\$ 1,217,482	\$ 1,578,637	\$ -0-	\$ 3,639,360

# HENRY COUNTY HOSPITAL

## COMBINING STATEMENTS OF CASH FLOWS YEAR ENDED DECEMBER 31, 2006

	Hospital	Foundation	Diversified Management Corporation	Eliminations	Total
<b>Reconciliation of operating income to net cash flows from operating activities</b>					
Operating income	\$ (1,364,147)	\$ 1,106,945	\$ (1,130,705)	\$ -0-	\$ (1,387,907)
Adjustment to reconcile operating income to net cash flows from operating activities:					
Depreciation and amortization	4,396,986	1,055,899	133,047	-0-	5,585,932
Bad debts	2,368,984	-0-	-0-	-0-	2,368,984
(Gain)/Loss on disposal	83,970	-0-	-0-	-0-	83,970
Changes in assets and liabilities:					
Patient accounts receivable	(2,711,379)	-0-	134,032	(427,368)	(3,004,715)
Supplies and other current assets	(1,119,917)	109,810	(140,646)	(10,588)	(1,161,341)
Accounts payable and accrued expenses	(24,892)	2,970	327,380	523,569	829,027
Accrued salaries and related liabilities	337,194	-0-	-0-	-0-	337,194
Other long-term liabilities	(289,322)	-0-	(81,000)	289,322	(81,000)
Due from (to) related parties	652,474	(588,088)	(18,299)	(46,087)	-0-
Estimated third-party settlements	(391,582)	-0-	-0-	-0-	(391,582)
Net cash flows from operating activities	\$ 1,938,369	\$ 1,687,536	\$ (776,191)	\$ 328,848	\$ 3,178,562
<b>Reconciliation of cash and cash equivalents to the balance sheets</b>					
Cash and cash equivalents					
In current assets	\$ 814,379	\$ 1,217,482	\$ 1,578,637	\$ -0-	\$ 3,610,498
In investments	28,862	-0-	-0-	-0-	28,862
In assets whose use is limited	-0-	-0-	-0-	-0-	-0-
Total cash and cash equivalents	\$ 843,241	\$ 1,217,482	\$ 1,578,637	\$ -0-	\$ 3,639,360